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STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON EDUCATION, TRAINING AND EMPLOYMENT
HOUSE COMMITTEE ON VETERANS' AFFAIRS

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ON

[THE VETERANS ADMINISTRATION'S
PROPOSED AMENDMENT TO TITLE 38 U.S.C. 3301]

Mr. Chairman and Members of the Subcommittee, we are pleased to be here today to discuss proposed legislation to amend Title 38 U.S.C. 3301 permitting disclosure of names, addresses, and other information maintained by the Veterans Administration (VA) to consumer reporting agencies--more commonly known as commercial credit bureaus. The purpose of this amendment is to allow VA to use consumer reporting agencies in its debt collection process.

Federal collection action has been the subject of numerous GAO reviews and is of growing concern to our Office. The inventory of debts owed the Federal Government grew from \$118 billion as of September 30, 1977, to \$140 billion as of September 30, 1978. This is an increase of 19 percent in just 1 year. A large and growing part of this amount

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will require some type of collection action and if the present trend continues a significant amount will be written off as uncollectible or collection action will terminate.

Many debts result from overpayments by the Federal Government. VA reported current educational assistance overpayments outstanding of more than \$403 million as of May 31, 1979. For the first 8 months of fiscal year 1979 collection action was terminated on over \$15 million and almost \$5 million was waived or compromised. As of June 30, VA had on its books over \$179 million in terminated educational assistance accounts. About the only current hope for future collection is to offset these debts from benefits.

When amounts owed the Federal Government are not paid, or payment is late, the Government is deprived of the current use of funds, its losses due to bad debts increase, and its administrative workload goes up. As receivables age, they become increasingly difficult to collect. In addition, people who are consistently delinquent will be prompted to pay on time only when they know the Government is enforcing collection.

When debts are not collected, people are given benefits to which they are not entitled; self-help programs are, in effect, converted into unauthorized grant programs, and as word spreads that repayments can be avoided, fewer people will pay voluntarily resulting in agencies having to devote more and more time to collection. Further, it is unfair to the taxpayer

and to those who pay their debts to the Government to allow these debts to go uncollected. This is especially important when the individual owing the debt has the ability to pay.

We believe there are two basic reasons why debt collection in Government has not kept pace with the increasing number of debts. First, many agencies have not been aggressive in pursuing collection and second, present collection methods are expensive, slow, and ineffective when compared with commercial practices. Two recent GAO reports 1/ focus on these issues. Based on our February 1979 report, GAO and the Department of Justice revised the Federal Claims Collection Standards to require Federal agencies to report delinquent debts to commercial credit bureaus to facilitate Federal debt collection efforts.

Revision of 38 U.S.C. 3301 would permit VA to adopt two commercial debt collection practices. These practices are (1) reporting debts to credit bureaus and (2) using credit bureau debtor locator services. Private industry officials have told us that the single most powerful motivation for persons to pay their debts is to avoid the stigma of having their credit rating reflect that they have not paid debts on time. The vast majority of Americans rely on credit

1/ "The Government Needs to do a Better Job of Collecting Amounts Owed by the Public" (FGMSD-78-61, Oct. 20, 1978).

"The Government can be more Productive in Collecting its Debts by Following Commercial Practices" (FGMSD-78-59, Feb. 23, 1979).

to buy the things they need. Reporting delinquent VA accounts to credit bureaus would likely motivate veterans to pay their debts to VA. Credit bureaus can also be used to locate veterans because millions of Americans have credit records. We believe that adopting both of these commercial practices would improve VA's debt collection process.

HOW OVERPAYMENTS ARE CREATED

In March 1976, we reported 1/ to the Congress on the overall problems of overpayment of educational assistance benefits by VA. We told the Congress that the overpayments were caused by (1) delays in reporting training status changes, (2) the issuance of special payments, (3) poor VA processing practices, and (4) the prepayment and advance payment provision of the law providing VA educational assistance.

We recommended that VA take a number of actions to reduce delays by veterans and schools in reporting training status changes, reduce processing delays or errors, reduce special payments, improve normal processing time, and improve collection actions on overpayments. In February 1978, we reported 2/ to the Congress on the adequacy of VA's action to implement

1/ "Educational Assistance Overpayments, A Billion Dollar Problem--A Look at the Causes, Solutions, and Collection Efforts" (MWD-76-109, Mar. 9, 1976).

2/ "Further Actions Needed to Resolve VA's Educational Assistance Overpayment Problem" (HRD-78-45, Feb. 17, 1978).

our prior recommendations. We stated that VA should take additional actions to reduce overpayments in the educational assistance program and collect the amounts outstanding. VA agreed with our recommendations.

VA'S CURRENT DEBT COLLECTION PROCESS

Currently
VA collects debts through its Centralized Accounts Receivable System (CARS) located at St. Paul, Minnesota. We are currently reviewing VA's debt collection system at the request of Senator William Proxmire, Chairman, Subcommittee on HUD and Independent Agencies, Senate Committee on Appropriations. Our review is focusing on the potential for making further collections of educational assistance overpayments for which collection actions have been terminated and analyzing causes for terminating collection action. As of June 30, 1979, VA had stopped collection efforts on 627,000 educational assistance overpayment accounts totaling about \$179 million.

When an overpayment is created, the VA Data Processing Center in Hines, Illinois, transmits the account to CARS for collection. A large part of the collection system is automated and the basic collection letters sent to debtors are computer generated.

Using the last known address of the debtor, VA sends a collection letter requesting payment. If no response is received, VA will send two more letters. These letters also inform the debtor that it is possible the debt can be waived or compromised; that is, a lesser amount could be

accepted in lieu of the full amount and the debt can be paid on a periodic repayment plan. No interest is charged on these debts; however, recent revisions to the Federal Claims Collection Standards state interest should be charged on delinquent debts and debts being paid in installments. With no interest charged it is to the debtor's advantage to delay payment on the debt to VA and pay other debts on which interest or late payment penalties are charged.

If the debtor does not respond to the collection letters, the nature of further collection action is determined by the size of the debt. Educational assistance debts that are \$600 or more may be referred to the Department of Justice for litigation if VA determines the debtor has the ability to pay. For example, a single person with no dependents must have annual income of at least \$7,500 before the case is referred to Justice.

To determine a debtor's income and employment, VA contracts with commercial firms to gather information. The information is gathered through personal interviews with the debtor or persons supposedly knowledgeable about the debtor such as a family member or neighbor. The current cost to VA for this type of investigative credit report is about \$5.75 and is payable whether useful information is obtained or not. VA reported that of the investigative

credit reports requested in fiscal year 1978, for 42 percent the debtor was not located and information could not be developed. The cost of these credit reports to VA was over \$300,000.

Accounts that are under \$600 or over \$600 but the debtor is unemployed, has insufficient income, or cannot be located, are terminated. When an account is terminated, administrative collection action stops. The debt may be collected in the future if the veteran applies for and receives additional educational or compensation and pension (C&P) benefits.

There is no incentive for debtors to pay once their account is terminated because (1) they will not receive any additional requests for payment, (2) the debt will not be pursued through litigation, (3) no interest is being charged on the debt, and (4) the debt is not part of their credit history as recorded at a commercial credit bureau. Other would-be lenders to the debtor are unaware of the delinquent debt and, therefore, it is not a reflection on the debtor's credit worthiness.

INFORMATION ON TERMINATED ACCOUNTS

In our on-going review of CARS, we sought to determine the reasons why VA had stopped collection efforts on educational assistance overpayments and whether debtors with terminated accounts have the ability to pay. In the past, VA has stressed that the inability to locate debtors was a major problem in obtaining collection.

We are now analyzing two random samples of terminated accounts. One sample includes terminated educational assistance overpayment accounts over \$200 in specific geographical areas and a second sample includes only accounts over \$600. This second sample, from the same geographical areas, was drawn because, as previously stated, accounts over \$600 can be referred to Justice for further collection action.

Reasons for terminating
collection action

From the first sample of 1,000 accounts over \$200 we found that:

- 83 percent of the accounts were terminated because they could not be referred to GAO 1/ or Justice.
- 9 percent were terminated because VA determined the debtor was unable to pay.
- 7 percent were terminated because VA could not locate the debtor.

We could not determine why the remaining 1 percent of the accounts were terminated.

From the second sample of 200 accounts over \$600 we determined that:

- 79 percent were terminated because of the debtor's inability to pay.

1/In March 1978, VA began referring educational assistance overpayment accounts in excess of \$600 directly to Justice. Prior to this date, accounts in excess of the referral amount were first forwarded to GAO for collection; if GAO collection actions were unsuccessful, the account was then referred to Justice.

--19 percent were terminated because the debtor could not be located.

We could not determine why the remaining 2 percent of the accounts were terminated.

The majority, about 94 percent, of terminated educational assistance overpayment accounts are under \$600 and, therefore, most of the accounts were terminated because they could not be referred to GAO or Justice.

We noticed that payments were made on some accounts to reduce the amount owed to below the dollar limit for referral and then payment stopped. A CARS official told us that his contacts with veterans revealed that some knew the dollar limit for referral to GAO and Justice. One veteran told him that all he had to do was wait and VA would terminate his account. The official also stated that some veterans' organizations on campuses publicize the dollar limit and in one case the VA campus representative told the veteran what the dollar limit was.

Some examples of accounts reduced below the dollar limit for referral but terminated follow:

--In 1977 a veteran with an overpayment of \$567 received three demand letters from VA. The third demand letter stated that his account would be referred to GAO, if payment was not received. At this time the dollar limit for referral to GAO was \$500. The veteran then made a \$100 payment. Subsequently, the account was terminated.

--Another veteran had an overpayment of \$540 in mid-1976.

Two cash payments of \$25 were received reducing the debt to \$490 or \$10 below the referral limit of \$500.

The debt was terminated in September 1977 after three collection letters were sent.

--A third veteran had an overpayment of \$813 in 1975.

Three payments totaling \$300 were received reducing the debt to \$513. Subsequently, in September 1977 the account was terminated when the limit for referral was \$600.

We believe these examples illustrate that veterans either have knowledge of the dollar limit or, based on VA's collection actions, they learn that if a debt is reduced below a certain level, collection action stops.

COMMERCIAL CREDIT BUREAU INFORMATION

To obtain information on whether the debtors with terminated accounts have the ability to pay the overpayments we requested credit reports from a commercial credit bureau for all 1,200 sampled accounts. Credit reports contain information submitted by creditors about individuals. They reflect dollar lines of credit, delinquent accounts and accounts on which collection action has been taken. Often they also show place of employment and most recent address. The cost of these credit reports to us averaged about \$1.60 as compared to the \$5.75 paid by VA for an investigative type credit report.

For the 1,200 sampled accounts, credit reports were available at the commercial credit bureau for 915, or 76 percent. Our review of the credit reports showed that:

- 56 percent of the veterans had what we considered good credit ratings.
- 57 percent had been extended credit which exceeded the amount of the outstanding overpayment. A creditor had, therefore, determined these veterans had the ability to repay an amount equal to the overpayment.
- 81 percent were employed including 6 percent with the Federal Government. Two of the debtors are VA employees.

Some specific examples of veterans with good credit ratings but who owed a debt to the Government for which collection efforts had been terminated follow:

- In one case VA had stopped collection efforts on an overpayment of about \$1,208 in July 1977 because the VA investigative credit report indicated the veteran was unemployed. However, the commercial credit bureau report we obtained in January 1979 showed that the veteran was employed and had been extended credit of \$1,300 for purchasing household goods.
- A veteran's overpayment account of \$1,190 was terminated in December 1977 because the veteran had insufficient income for referral to GAO. However, the credit bureau report we obtained showed that

he was employed and had obtained an unsecured bank loan for \$1,100 in August 1978.

--Another overpayment account of \$685 was terminated in June 1978 because the veteran was unemployed. His credit bureau report showed he had satisfactorily paid two auto loans--one for \$6,400, and another for \$1,600. In December 1978, a major bank reported the veteran had a credit card with a \$700 line of credit.

--A veteran's overpayment of \$578 was terminated by VA in August 1977. An investigative credit report obtained by VA showed the veteran was a Postal Service employee with an estimated income of \$17,000 and his spouse had an estimated income of \$7,000. The account was terminated because it was under the \$600 limit for referral to GAO. The credit bureau report showed the veteran had obtained an auto loan for \$4,600 1 month before VA terminated his account.

--Another veteran's account of \$276 was terminated in October 1978 because it could not be referred to Justice. The commercial credit bureau report shows that earlier in 1978 he secured an auto loan for \$8,700. The report also indicates the veteran is a Federal employee.

--A veteran's overpayment account of \$999 was terminated in June 1978 because VA could not determine the

veterans' ability to pay through an investigative credit report and VA regional office inquiries.

The credit bureau report that we obtained showed he was employed at a California Naval shipyard and he obtained an installment sales contract loan of \$14,700 about 6 months before his account was terminated by VA.

--A final example is a veteran whose overpayment account of \$639 was terminated in July 1977 but his commercial credit bureau report shows two real estate loans for \$67,000 and \$170,000 in 1977 and 1978 respectively. This veteran's debt appears to have been terminated because of inability to pay since VA's investigative report showed earned income of only \$400 a month.

We believe that many of the veterans with VA overpayment accounts on which collection efforts have stopped have the ability to repay the overpayment but are simply unwilling to do so. They have little incentive to repay primarily because their financial status and credit records remain unaffected by the delinquent debt. However, if a veteran's delinquent debt was entered on the credit bureau report, the veteran's credit worthiness as viewed by creditors would be affected and most likely there would be an incentive to pay.

COLLECTION THROUGH OFFSETTING BENEFITS

A relatively easy way to collect an educational assistance overpayment is to offset from other benefits or withhold certain privileges until an overpayment is repaid. VA's collection process provides for checking the names of veterans having delinquent educational assistance overpayments against the records of veterans receiving compensation and pension benefits. If such benefits exist, they are used to offset education indebtedness. The checking process is semi-automated and relies heavily on VA personnel to manually check and initiate any offset.

To test VA's procedure for making offsets, we checked our sample of 1,200 terminated accounts against the records of veterans receiving compensation and pension benefits. Of the 1,200 accounts, we found that 11--or 1 percent--of the veterans were receiving compensation and pension benefits. For example, one veteran whose educational assistance overpayment account of \$423 was terminated in January 1978, began receiving compensation and pension benefits of \$75 a month in September 1978. We informed VA officials of these accounts and they have been, or will be offset. A VA official stated that semiannually veterans with inactive educational assistance overpayments are matched with veterans receiving compensation and pension benefits. Our findings indicate the continued need for examining

the feasibility of routine automated procedures to check for offsetting benefits. We recommended this to VA in our 1976 report (see p. 4).

Besides offsetting debts against other benefit payments the Federal Claims Collection Standards state that agencies seeking the collection of statutory penalties, forfeitures, or debts will, as an enforcement aid or for compelling compliance, give serious consideration to the suspension or revocation of licenses or other privileges for any inexcusable, prolonged or repeated failure of a debtor to pay such claim.

We inquired at the start of our current review whether VA had considered withholding guaranteed home mortgage benefits from veterans with overpayments. At that time VA officials told us they were not withholding or planning to withhold this benefit.

We conducted a test, matching veterans having terminated accounts with applicants for VA guaranteed loans in VA's Los Angeles region. Our test yielded 575 matches or about 3 percent of the possible matches. The loan application dates for all 575 matches were between January 1977 and January 1979. An analysis of these matches showed that:

--Of the 575 accounts matched, 425 showed financial data. The average price paid by the 425 veterans for a home was \$52,300.

- 542 or 94 percent of the veterans applied for a guaranteed loan after their educational assistance overpayment account was created. Therefore, VA would have had a good chance to collect the overpayments if VA had withheld this benefit subject to payment of the debt.
- Of the 542 veterans mentioned above, 436 received a VA guaranteed loan. These 436 veterans had overpayments totaling \$134,600.
- On the average, about 2 years after the educational assistance overpayment was created, the veteran applied for a VA guaranteed loan.

Three specific examples from our match follow:

- In one case the veteran owed the VA \$892 which was discovered in April 1977. VA attempted to obtain information on this veteran through an investigative credit report and inquiries by local VA officials. The veteran did not respond to any of VA's contacts and his wife would not provide VA with any information. The account was subsequently terminated in June 1978 because income information could not be obtained for referral to Justice. The veteran applied for a VA guaranteed mortgage about 2 months later and VA committed itself to guaranteeing the loan; however, the veteran subsequently withdrew his application. A commercial credit report obtained by GAO revealed the veteran obtained an auto loan for \$9,700 in February 1979.

--A veteran's educational assistance overpayment account of \$546 was terminated in January 1976. About 2 years later he purchased a \$64,500 home with the help of a VA guaranteed mortgage. His commercial credit bureau report showed that he had a good credit rating and that he worked for the Internal Revenue Service.

--In the third example, a veteran's \$1,360 overpayment account was terminated by VA for inability to pay in January 1978. He applied for a guaranteed mortgage 9 months later and subsequently obtained a loan on a \$64,500 home. A report from the commercial credit bureau revealed the veteran had a credit card from a major bank with a \$700 line of credit.

In April 1979, VA instructed its regional offices to check guaranteed mortgage loan applicants for educational assistance overpayment accounts and education loan defaults. VA headquarters officials told us that initial results of the matching program are encouraging. However, because of the late initiation of this program we believe the opportunity to collect a significant amount of the overpayments has been lost. Also, we believe procedures in the current VA matching program could be strengthened, particularly as they apply to lenders who can commit VA to guaranteeing a loan.

Another way to offset delinquent debts is to withhold Federal tax refunds, which GAO recommended 1/ in March 1979. We provided data to the Internal Revenue Service (IRS) on 613 outstanding Government receivables valued at \$431,000 and IRS determined that \$153,600, or 36 percent, could conceivably have been collected by reducing tax refunds paid within 2 years after the accounts were written off.

SPECIFIC COMMENTS ON VA'S
JUSTIFICATION FOR CHANGING
38 U.S.C. 3301

We ^{GAO} support the need to amend 38 U.S.C. 3301 to allow disclosure of veterans' names, addresses, and debt information to consumer reporting agencies. These disclosures are consistent with revisions to the Federal Claims Collection Standards, published jointly by our Office and the Department of Justice in the Federal Register on April 17, 1979. The revised Federal Claims Collection Standards state, in part, that "Agencies shall develop and implement procedures for reporting delinquent debts to commercial credit bureaus."

Although the specific language of the amendment to 38 U.S.C. 3301 is a matter for the Congress to decide, we are concerned with certain aspects of VA's letter to the Speaker of the House accompanying the proposed bill. On page 3 of the letter, VA states

1/
"The Government can Collect Many Delinquent Debts by Keeping Federal Tax Refunds as Offsets" (FGMSD-79-19, Mar. 9, 1979).

that certain debtors do not respond to VA's collection notices and that

"* * * Where this pattern is present, we believe that a recovery option, effective even for debts under \$600, and not involving the delays and extra Federal costs of debt collection litigation, should be authorized for study and possible use by the Veterans Administration. This option, * * *, would be that the Veterans Administration could refer information to a consumer reporting agency."

In our current review, VA officials told us that they were reluctant to report delinquent debts to commercial credit bureaus because of the lack of public sympathy for Vietnam veterans. We believe a lengthy study by VA with the perceived option of rejecting implementation of reporting delinquent debts would not be a prudent course of action after revision of 38 U.S.C. 3301, particularly since Federal agencies have already been directed by the Federal Claims Collection Standards to develop and implement procedures for reporting delinquent debts to commercial credit bureaus.

The VA letter also states that only debtors who do not respond to collection notices should be reported to a credit bureau. We are concerned, however, that veterans may respond to VA solely for the purpose of avoiding or delaying repayment of the debt. For example, in our sample of

terminated accounts, some veterans had written to VA saying they were going back to school, then enrolled and dropped out or never attended. In one case, debt collection was suspended and subsequently terminated because the veteran wrote VA that he was not ready to pay, no longer working, and going on a "well deserved" vacation. These types of responses are not questioning the amount of the debt but do have the effect of delaying or otherwise thwarting the collection process.

In summary, we are in favor of amending 38 U.S.C. 3301 to allow disclosure of names, addresses, and other information to consumer reporting agencies for debt collection purposes. Such an amendment is necessary for VA to comply with the revised Federal Claims Collection Standards.

In addition, our review work has shown that a large portion of veterans with terminated educational assistance overpayment accounts are paying their private industry creditors but they are not paying VA. We believe a major reason for this is that nothing will happen to the veteran who does not pay VA; whereas, in the private sector, non-payment results in reporting to commercial credit bureaus and litigation of accounts.

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This concludes our statement. We will be happy to respond to any questions you or other Members of the Subcommittee may have.